ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

RESPONSES OF THE CITIZENS UTILITIES COMPANIES TO THE COMMON CARRIER BUREAU'S SPECIFIC QUESTIONS ON UNIVERSAL SERVICE

CITIZENS UTILITIES COMPANY

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SUMMARY OF COMMENTS

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas? Yes.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates? and 3 When making the "affordability" determination required by Section 254 (i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model? The variables of telephone expenditures as a percentage of income and the local calling area size should be included in the determination of the affordability standard for a particular geographic area.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services? Carriers have the right to acquire any or all of the network elements needed, at cost-based rates, from incumbent LECs.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual costs of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definitions of core services, identify and quantify other costs to be considered. Local loops should be universally available because of the fundamental, socially desirable access they afford to the full array of modern telecommunications and information services. Access to and usage of directory assistance and emergency assistance are core universal services properly included in the universal services category

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services? and 7 Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimate cost of the inside wiring and other internal connections? The services or functionalities eligible for discounts should include any service that is classified as a "telecommunications service." Inside wiring and other internal connections are not properly classified as a telecommunications service.

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996? and 27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996? Subsidies implicit in interstate access must be eliminated; an explicit funding methodology created; the threshold for receipt of funding raised; the percentages of costs deemed eligible for funding reduced; funding of high-cost support and rate rebalancing allowed; and distribution of support made available to qualified competitors.

28. What are the potential advantages and disadvantage of basing the payments to competitive

carriers on the book costs of the incumbent local exchange carrier operating in the same service area? Advantages -- simplicity and the assurance of adequate compensation; disadvantage -- possible over-compensation .

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of Section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers? and 30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach? The form of regulation that a carrier operates under is irrelevant to its eligibility for universal service funding.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined? Rural telephone companies are precisely defined in Section 3(47) of the Act.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from books costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period? A three-year transition period to move rural companies to a proxy system is appropriate.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting levels? No correlation appears to exist between the level of high-cost support and subscription rates.

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service? None.

37. How does a proxy model determine costs for providing only the defined universal service core services? By application of appropriate TSLRIC principles.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities? A proxy model should enable changes in the definition of core services by the addition of new or changed input variables.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur? Services not found to be properly classifiable in the universal services category should not be part of a proxy model.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests? A policy decision on whether some recourse is appropriate for companies whose book costs are substantially above the costs projected in the ultimate proxy model should be made after the structure of the model that will apply to rural telephone companies is determined.

44. How can a proxy model be modified to accommodate technological neutrality? Technological neutrality in a model requires a recognition of the least cost technology that is available and actually deployed.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document? and 46. Should a proxy model be adopted if it is based on proprietary data that may not be available publicly? No. Results of use of a proxy model that uses a carrier's proprietary data should be subject to confidential treatment.

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas? Unknown at this point in time.

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs? Census Block Groups have no relationship to actual LEC networks.

59. The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those commenters also proposed the use [of] an additional extra-high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM? Microwave is regularly used in rural networks and should be included. No extra-high-cost variables are needed in a proper model.

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments? Yes.

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create and opportunity for over-recovery from universal service support mechanisms? Separations and access changes are needed regardless of the model selected.

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Citizens Utilities Company, on behalf of itself and its telecommunications divisions and subsidiaries (hereinafter referred to, collectively, as the "Citizens Companies"),[1/] by its attorney, hereby submits its responses to the Common Carrier Bureau's request for further comment[2/] on specific questions in the above-styled proceeding, and shows as follows:

I. Introduction

The Citizens Companies are responding to selected questions posed by the Common Carrier Bureau in its request for further comments. Consistent with the request's instructions, the section headings and questions responded to, including the question number assigned in the request, are reproduced below

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[1/] The Citizens Companies and their interest in this proceeding are described in their initial comments in this proceeding, filed April 12, 1996

[2/] *See* Public Notice, DA 96-1078, released July 3, 1996

II. The Questions and the Citizens Companies' Responses

A. Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

Current rates should be presumed affordable in that they are not so high that consumers are discouraged from connecting to the network. The nationwide average penetration rate approximating 94%[3/] shows that a significant majority of consumers are willing and able to pay the existing prices to remain connected to the network. However, it should not be assumed that current rates for the universal service category are necessarily at or even approaching the maximum level of affordability. The question of affordability cannot be divorced from the issue of eligible carriers' ability to recover the costs of providing such services. In point of fact, the Citizens Companies view that the very purpose of this proceeding is resolution of how, in the face of a Congressional injunction to end implicit subsidization of universal services, "affordable" rates are to be maintained in high-cost, rural and insular areas. A fundamental, yet difficult part of this process is reexamination of the definition of affordability in an entirely new competitive and regulatory environment.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

Non-rate factors should be considered an indispensable element in determining the affordability and comparability of rates for universal service. In non-regulated industries, prices and

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[3/] In the Matter of Amendment of the Commission's Rules and Polices to Increase Subscribership and Usage of the Public Switched Network, CC Docket No. 95-115, Notice of Proposed Rulemaking, 10 FCC Rcd. 13003 (1995)

consumer choices are driven by factors including income, the cost of service and the quality and variety of the available service package. The variables of telephone expenditures as a percentage of income and the local calling area size should be included in the determination of the affordability standard for a particular geographic area. As implied by the question, the level of affordable rates need not be identical across the country. Consideration of disparate levels of consumer purchasing power is appropriate, for example, in determining whether rates are reasonably comparable between urban and rural areas.

3. When making the "affordability" determination required by Section 254 (i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

It is important to point out that the definition of an affordability standard is the result of a process that is separate and distinct from the process of identifying the costs of the defined universal services. The process of identifying the costs of the defined universal services is relevant to the question of funding the difference, if any, between the affordability standard, as defined, and the underlying costs.

The separate development of a national benchmark of affordability for core services could be done through a model, such as a proxy that might include the current nationwide average of the rates of services included in universal service. The affordability determination model should also consider the local calling area size and telephone expenditures as a percentage of income, as discussed above. As a result, there may not be a single national affordability benchmark, but, instead, regional or statewide affordability benchmarks.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

Inherent in this question is the assumption that it might be technically infeasible for a carrier to provide one or more core universal services. While it might be infeasible for a carrier to deploy its own facilities to provide all elements of a core service, that carrier does have the right, under Sections 251(c)(3) and 252(d)(1), to acquire any or all of the network elements it needs, at cost-based rates, from the incumbent LEC in the area. Any claim by an incumbent LEC that the necessary facilities cannot be unbundled will undergo regulatory scrutiny, and any effort on the part of the incumbent to intentionally frustrate competition will be dealt with appropriately.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual costs of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definitions of core services, identify and quantify other costs to be considered.

As a threshold matter, this question fails to draw the necessary, if subtle, distinction between a local loop, as the physical connection to the telecommunications network, and the functionality that is afforded by that loop. The Citizens Companies perceive little, if any, disagreement among the commenters that local loops should be universally available because of the fundamental, socially desirable access they afford to the full array of modern telecommunications and information services. The disagreement, instead, is over what degree of functionality in the use of those local loops, in the form of specific telecommunications services, should be the focus of universal service funding. The provision of a telecommunications service involves more cost than just the cost of the local loop; local switching and transport costs are also implicated.

The Citizens Companies are among the commenters that recommend inclusion of access to and usage of directory assistance and emergency assistance as core universal services properly included in the universal services category. These services are indisputably vital to every day life in America and access and actual usage should be universally affordable. The same is not true with reference to "advanced services." While physical loops should be universally available as a platform to any and all services that a consumer may desire, only those services that have been found indispensable to modern life should be eligible for funding. Advanced services have yet to be defined, much less subjected to the rigorous analysis required to determine if they should be funded as part of universal service. The cost of using advanced services, as opposed to access to those services via a voice-grade loop, should not be eligible for funding unless and until appropriate findings are made under Section 254(c)(1).

B. Schools, Libraries, Health Care Providers

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?

and

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimate cost of the inside wiring and other internal connections?

The services or functionalities eligible for discounts should include any service that is classified as a "telecommunications service," *i.e.*, " . . . the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used."[4/] "Telecommunications" is defined as, " . . . the transmission,

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[4/] Section 3(51) of the Act.

between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received "[5]

The Citizens Companies do not find any suggestion in Section 254, in general, or in Section 254(h), in particular, that anything other than telecommunications services are eligible for universal service support. In particular, the Citizens Companies do not believe that Section 254 contemplates the inclusion of inside wire or other internal connections within the ambit of universal service support. Inside wire and other customer-specific internal connections are properly classifiable as "customer premises equipment" because it is used on the "premises of a person (other than a carrier) to originate, route, or terminate telecommunications."[6] Clearly, Congress would have included customer premises equipment in the category of services to be supported if it had intended to do so; the statutory definition of telecommunications services cannot be read to subsume customer premises equipment, in general, or, more particularly, inside wire and other internal connections.

C. High-Cost Fund -- General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

To meet the requirements of the new law, the existing system must, at a minimum, be revised as follows:

(a) subsidies implicit in interstate access must be eliminated, particularly the carrier common line and residual interconnection charge rate elements;

(b) the DEM weighting mechanism must be eliminated and the costs of local switching

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[5] Section 3(48) of the Act.

[6] Section 3(38) of the Act.

transferred to the current loop high-cost fund mechanism;

(c) an explicit funding methodology must be created that features, *inter alia*, a contribution mechanism that assesses all interstate carriers, not just long distance providers;

(d) the threshold for receipt of funding should be raised to one standard deviation above the nation-wide average cost;

(e) the percentages of costs deemed eligible for funding should be reduced in order to better target funding to the most deserving areas.

(f) the FCC and states must coordinate funding of high-cost support and rate rebalancing must be allowed to the maximum degree possible; and

(g) distribution of support must be made available to competitors that enter high-cost areas and receive eligible telecommunications carrier status from the relevant state commission

27. <u>If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?</u>

See the response to Question 26, above. Important changes that should be considered include raising the thresholds for eligibility; reducing the percentage of costs deemed eligible for funding; and using a smaller geographic area than study areas, such as wire centers, as the basis for eligibility determination. These changes will serve to target funding to areas of need than is the case with the present USF system

28. What are the potential advantages and disadvantage of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

The theoretical advantages of basing payments to competitive carriers on the book costs of the incumbent LEC's in the same area are simplicity and the assurance that the new entrant is adequately compensated for its provision of universal service. The primary disadvantage is possible over-compensation of the new entrant is capable of providing service at a lower cost than the incumbent.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of Section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

This question betrays a flawed assumption -- that the only price cap carriers are the BOCs and GTE. In point of fact, the Citizens Companies group of incumbent local exchange carriers ("LECs") became price cap regulated at the FCC this year. In addition, other smaller incumbent LECs, *e.g.*, Southern New England Telephone Company, Lincoln Telephone, Frontier and the Sprint Telephone Companies, are under FCC price cap regulation. Unlike the BOCS and GTE, the Citizens Companies' incumbent LECs primarily serve areas that are, by any conceivable definition, rural and high-cost.

Bifurcation of a high-cost support mechanism on the basis of the form of regulation under which a potential recipient operates is inappropriate, particularly in light of the fact that new entrants will, in all likelihood, be subject to minimal, if any, economic regulation. Congress contemplated that any carrier, regardless of the form of economic regulation, if any, it is subject to, should be eligible for funding in a qualifying area if it meets the Section 214(e) eligibility criteria.

The form of regulation that a carrier operates under is irrelevant to its eligibility for universal service funding. If the genesis of this question is the assumption that all price cap companies are large operators serving a mix of urban, suburban and rural areas, thereby allowing averaging of high and low cost areas, the assumption is demonstrably incorrect as to the Citizens Companies' incumbent LECs. Even as to those price cap carriers that dwarf the Citizens Companies' incumbent LECs in size and service territory, the answer to the cost averaging issue, if it is indeed a legitimate issue, is use of smaller geographic areas than today's study areas for eligibility determination.

30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach?

As discussed in response to Question 29 above, a distinction among carriers according to the method under which they are regulated is inappropriate and inconsistent with the universal service principles enshrined in Sections 214(e) and 254 of the Act. Even if this were not so, the Citizens Companies foresee great difficulty in trying to determine the definition of a "price cap carrier." The difficulty is illustrated by the following representative example: the Citizens Companies' incumbent LECs are price cap regulated at the federal level, but one of the constituent companies in West Virginia is subject to an incentive regulation plan, while the other constituent company in the State is subject to conventional rate-of-return regulation.

No effort should be given to the arduous and ultimately futile task of exploring the many versions of alternative price regulation to try and discriminate between carriers that are, by statute, potentially eligible for universal service funding.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

A bifurcated plan that would allow the use of book costs in lieu of proxy costs by rural companies, for a finite period of time, is exactly what the Citizens Companies have proposed. The Citizens Companies believe that rural telephone companies should be allowed to use book costs for a three-year transition period, at the end of which they will move to a mature, tested proxy method already in use for non-rural telephone companies

Rural telephone companies are precisely defined in Section 3(47) of the Act. The states have the authority to designate eligible carriers under Section 214(e) of the Act. No further FCC action is necessary to identify these companies.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from books costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

The Citizens Companies have recommended a three-year transition period to move rural companies to a proxy system. The Citizens Companies also recommend that this transition take place earlier if a competitor enters the geographic area and is deemed eligible for universal service support. The Citizens Companies do not recommend the initiation of or a transition to a competitive bidding system for universal service support.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting models?

The Citizens Companies see no correlation between the level of high-cost support and the rate of subscription in a geographic area. If a low rate of subscription exists because of the perceived

unaffordability of universal service, reducing the service provider's receipt of funds may exacerbate the problem. Additionally, programs such as Lifeline and Linkup are more appropriate tools by which to raise subscription in areas that may have a lower than average income. Low subscription levels may exist in certain geographic regions where telephone service is not part of the local traditions or individuals' preferences. The FCC must make decisions in this area that balance the financial viability of incumbent LEC recipients of HCF and DEM weighting, the need to ensure the affordability of universal service pursuant to the Act, and the need for carriers to become less reliant on such mechanisms and the current levels of high-cost funding.

D. High-Cost Fund -- Proxy Models

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

The Citizens Companies do not believe that a need for additional programs, beyond high-cost funding, are needed to ensure that insular areas have affordable telecommunications service. To the extent that carriers serving such markets report high universal service costs in relationship to the applicable affordability standard, such carriers will receive high-cost support in the same manner as any other carriers. If the FCC is concerned about the disparate long distance service costs faced by consumers in such areas, the rate integration and rate averaging provisions of the Act prohibit carriers from charging disproportionate rates to such consumers.

37. How does a proxy model determine costs for providing only the defined universal service core services?

Telecommunications networks are integrated facilities over which a variety of services--regulated and deregulated, basic and enhanced, local and long distance--are provided. An allocation

process is therefore necessary to separate the costs of providing the defined core universal services from the costs of providing all other services over the same facilities. This is true regardless of whether a proxy model or some other methodology is used. As a result, no cost estimation method can perfectly limit the scope of costs included in a study to those properly associated with the service(s) of interest.

In the opinion of the Citizens Companies, some of the proxy models under study use an appropriate approach to the necessary cost allocation process. The Citizens Companies have conducted certain reviews of three of the models, the BCM1, one version of the Hatfield model and the Pacific Bell Cost Proxy Model.[7/] These proxy models are based on variations of Total Service Long Run Incremental Cost ("TSLRIC") principles, estimating the costs of a service by a "bottoms-up" approach, rather than an artificial "trickle down" cost allocation approach characteristic of fully distributed cost methods.[8/] By use of a bottoms-up approach, these models build the facilities and functions necessary to the provision of the service at specified levels of demand, disregarding, where possible, facilities used to provide other services. Where the costs of business functions or operations are not incremental to the single service, some artificial cost allocation method may still be necessary in order to recognize a contribution toward shared and common expenses of the firm by that service.

[7/] The Citizens Companies evaluated these models with regard to their California local exchange properties and the California Public Utilities Commission's universal service proceedings (R. 95-01-020; I. 95-01-021). A lack of the significant computer, software and manpower resources prohibit the Citizens Companies from conducting a detailed analysis of these models as applied to their properties in the many other states in which they operate.

[8/] Although these models are generally based on TSLRIC principles, not all are adequate or appropriate in their assumptions of network technology, configuration or expenses. In the California universal service proceedings, the Citizens Companies supported the Pacific Bell Cost Proxy Model as the most appropriate choice

Those allocations may occur in addition to the TSLRIC estimation process. Any model adopted by the Commission should employ the TSLRIC methods here described.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

In general, a TSLRIC-based model should reflect the least cost technology available and actually deployed by carriers. A model constructed to estimate the costs of the functions necessary to provide the defined core services, as described above in response to Question 37, would have flexibility to enable the substitution of cost estimates for different technologies that are currently deployed to provide the function involved. In this way, a model can evolve to reflect the costs of newer technologies, especially as they become widely deployed. A proxy model should not be based on technology not available nor deployed by carriers that provide universal service.

A proxy model should enable changes in the definition of core services by the addition of input variables representing the functions that might be added to provide the additional services. The Citizens Companies believe that such changes in a model may occur only after findings are made that the additional functions or services meet the criteria set forth in the Act to be eligible for universal service subsidy.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

As discussed in response to Question 5, above, a distinction must be made, for universal service funding purposes, between the physical loop, which serves as the platform for access to all telecommunications services, and the telecommunications and information services that may be available via use of that loop. Included in the Citizens Companies' definition of universal service to

customers other those eligible under Section 254(h) is a loop sufficient for voice-grade access and those services that are so fundamental to modern life that they should be universally available, *e.g.*, local dial tone, access to long distance carriers, and access to 911/E-911 and directory services. Other services, including advanced services and information services do not, in the view of the Citizens Companies, meet the Section 254(c)(1) definitional criteria for classification in the universal services category. Services not found to be properly classifiable in the universal services category should not be part of a proxy model.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

The Citizens Companies have recommended that rural telephone companies be permitted to use their book costs for a three-year transition period. Over that period, a proxy model can be further studied. The model's ability to estimate the cost to serve the geographic areas in which rural telephone companies operate would be evaluated for ultimate application to rural telephone companies. A policy decision on whether some recourse is appropriate for companies whose book costs are substantially above the costs projected in the ultimate proxy model should be made after the structure of the model that will apply to rural telephone companies is determined.

44. How can a proxy model be modified to accommodate technological neutrality?

As described in the Citizens Companies' response to Question 38, above, a model can be constructed that estimates the costs of providing defined core services. The inputs to that model then can vary based on the technologies used in providing those core services. Technological neutrality in a model requires a recognition of the least cost technology that is available and actually deployed.

As new technologies are deployed, they could be included in a model to estimate the cost of serving a given geographic area. The new technology would be represented by the input of its cost as data for calculations of the model. A model used to determine the distribution of universal service funds, however, should not be required to estimate costs based on technologies that are neither available nor actually deployed in the provision of universal service.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

A proxy model adopted by the Commission in this proceeding must be a public document to enable all parties to understand and evaluate the various models.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available publicly?

The Citizens Companies believe that this question, unlike Question 45, is directed the actual application of a model by a carrier, rather than the model itself. Their answer proceeds on that belief.

The results of the use of a proxy model should not be rejected merely because of a carrier's reliance on proprietary data such as traffic studies and company-specific investment and expense information. While the general public would not have access to this data, parties disputing the results should have access to the underlying data that is legitimately proprietary pursuant to confidentiality agreements and procedures.

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?

Since the release of "BCM2" documentation, the Citizens Companies have determined that the BCM methods and assumptions have changed so drastically that it is not worthwhile to compare

its book costs to BCM1 results. At this time, the Citizens Companies have not had the opportunity to study the BCM2 results to determine their relationship to the Citizens LECs' book costs.

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?

The Citizens Companies have recommended the use of wire centers instead of Census Block Groups ("CBGs") because actual network configuration and costs are focused upon wire centers, rather than around CBGs. The network configuration assumptions resulting from the use of CBGs portrays no relationship to actual LEC network configurations used to provide universal services to high-cost areas. While the Citizens Companies are aware that the recent revisions of the BCM seek to remedy that shortcoming, they cannot indicate whether, indeed, those shortcomings have been eliminated.

59. The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those commenters also proposed the use [of] an additional extra-high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

In general, a model should be forward -looking and reflect least cost technologies that are actually in use. Any such model must, of necessity, include microwave trunking and other radio-based technologies that are heavily used in serving rural areas that feature rugged terrain. The Citizens LECs use microwave interoffice facilities in many of its rural areas where use of fiber or any other cabling facilities is impossible due to extremely rugged conditions. The Citizens Companies recommend that this technology, to the extent that it is used in local exchange operations, be accounted for in any proxy model that the FCC may ultimately adopt.

The Citizens Companies do not, however, see any need for an additional "extra-high-cost"

variable for remote areas not accessible by road. If such areas are, indeed, exceptionally high-cost areas to serve, and a model is properly structured, such areas will be eligible for higher amounts of funding than other qualifying areas. A "dummy" variable of road accessibility, for example does not provide adequate information to a model to indicate that costs are exceptionally higher in such areas.

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?

As the Citizens Companies described in response to Question 2, above, subscriber characteristics, such as income level or telephone expenditures in relation to income level, are variables that should be used in the development of the affordability standard. This is a separate function from estimating the cost of universal service for a geographic area. As a result, two models, a "demand" model reflecting subscriber characteristics as they affect the demand for and price elasticity of universal service and a "supply" model that would reflect the costs to provide universal service, would provide results that could be compared to determine whether an area qualifies for high-cost support and, if so, how much support.

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create and opportunity for over-recovery from universal service support mechanisms?

All the proxy models that have been presented--BCM, Hatfield, and Pacific Telesis-- rely upon various interpretations of TSLRIC, a costing methodology that is unrelated to regulatory accounting or jurisdictional allocations procedures. Any change from the current separations-based, universal

service high-cost support system to a new high-cost funding system based on TSLRIC approaches requires changes in separations procedures Additionally, access charge rules need to change because of statutory directives to end implicit subsidization of universal services, and to direct explicit funding to those services that qualify, under Section 254(c) as universal services. Accordingly, any implicit subsidies presently in the access structure, whether separations-derived or otherwise, must be eliminated. Further, changes in the prescribed access structure are needed to enable incumbent LECs to adjust their access charges in light of increased competition and the results of Sections 251 and 252 implementation regulations.

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August 2, 1996

CERTIFICATE OF SERVICE

I, Richard M. Tettelbaum, Associate General Counsel, do hereby certify that I have this 2nd day of August, 1996, delivered copies of the foregoing "Responses of the Citizens Utilities Company to the Common Carrier Bureau's Specific Questions on Universal Service," via first class mail, postage prepaid. to the following:

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